

Message Text

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ACTION ARA-14

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C O N F I D E N T I A L SANTIAGO 2129

E.O. 11652: GDS
TAGS: EFIN, ECON, PINT, SHUM, CI
SUBJ: EFFECT OF LETELIER-MOFFITT INVESTIGATION ON
FOREIGN BANK LENDING TO CHILE

REF: SANTIAGO 1463, SANTIAGO 0835

1. SUMMARY. CONCERN OVER THE DOMESTIC POLITICAL CONSEQUENCES
OF THE LETELIER-MOFFITT INVESTIGATION IS HAVING AN EFFECT ON CHILEAN
ACCESS TO THE NEW YORK FINANCIAL MARKET. ALTHOUGH CHILE'S
CHIEF BORROWING OFFICER CONSIDERS SUCH CONCLUSION PREMATURE,
THE LOCAL CITIBANK REPRESENTATIVE HAS DOCUMENTED WITHDRAWAL
OF SEVERAL U.S. BANKS FROM \$90 MILLION LOAN TO CHILEAN STATE
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POWER COMPANY. BOTH AGREE THAT ANY HESITATION ON THE PART OF
NEW YORK BANKERS SHOULD BE OFFSET BY THE ONGOING EFFORTS OF ENGLISH
GERMAN AND JAPANESE BANKS TO GAIN A LARGER SHARE OF THE CHILEAN
FOREIGN CAPITAL MARKET. END SUMMARY.

2. THE GOC HAS THE FOLLOWING MAJOR LOAN AGREEMENTS FOR 1978
IN VARIOUS STAGES OF DEVELOPMENT.

A) A \$150 MILLION SYNDICATED BALANCE-OF-PAYMENTS LOAN TO THE CENTRAL BANK (CB) MANAGED BY MORGAN GUARANTY. IT HAD BEEN ANTICIPATED THAT THE MORGAN LOAN WOULD BE READY FOR SIGNATURE MARCH 13. CB (TASSARA, GENERAL MANAGER FOR FOREIGN FINANCE) NOW SAYS THAT A LEGAL SNAG HAS DELAYED SINGING TO AFTER APRIL 7. THE LOAN REPORTEDLY WAS OVERSUBSCRIBED TO \$210 MILLION BEFORE, HOWEVER, THE LETELLIER-MOFFITT CASE REACHED PRESENT PROPORTIONS.

B) A \$90 MILLION SYNDICATED BUDGET LOAN TO ENDESA, THE STATE POWER COMPANY. MEMBERSHIP AND MANAGEMENT OF THE SYNDICATE IS YET TO BE DETERMINED.

C) A \$90 MILLION SYNDICATED BUDGET LOAN TO CORFO, THE STATE DEVELOPMENT AND HOLDING AGENCY, TO BE MANAGED BY CHASE, LLOYDS BANK GROUP AND COMMERZBANK.

3. WITH REGARD TO THE ENDESA LOAN (2B ABOVE), TASSARA SAYS THAT CB IS SATISFIED WITH BOTH THE RANGE AND COMPETITIVENESS OF THE OFFERS. THE CB EXECUTIVE COMMITTEE IS NOW MEETING TO SELECT THE MANAGEMENT GROUP. CITIBANK HERE DISPUTS THIS, SAYING THAT ITS OWN EFFORTS TO PUT TOGETHER A BIDDING GROUP COLLAPSED WHEN ALL BUT A HANDFUL OF POTENTIAL SUBSCRIBERS WITHDREW. NINETY PERCENT OF THE LOAN, ACCORDING TO OUR CITIBANK SOURCE, HAD BEEN SUBSCRIBED BY POTENTIAL MEMBERS OF THE CONFIDENTIAL

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CITIBANK GROUP PRIOR TO THE LETELIER-MOFFITT REVELATIONS. SEVEN OTHER GROUPS ARE, HOWEVER, UNDER CB CONSIDERATION. TASSARA NOTED ESPECIALLY INTERNATIONAL BANCSHARES OF DALLAS, HEADED BY GEORGE BUSH AND JOHN MURCHISON.

4. GOC APPROVAL OF CORFO'S AUTHORITY TO BORROW ABROAD (2C ABOVE), WAS PUBLISHED IN THE DIARIO OFFICIAL ON MARCH 21. WHILE RESISTING THE SUGGESTION OF LETELIER-MOFFITT PROBLEMS WITH THE ENDESA LOAN, TASSARA CONCEDED THAT SOME PROBLEMS MIGHT ARISE WITH THE CORFO BORROWING. NEVERTHELESS, HE SAID, CB IS CONTINUING TO RECEIVE A LARGE VOLUME OF OFFERS FROM VARIOUS BANKS. IN ADDITION, WEST GERMAN AND JAPANESE BANKS APPEAR PREPARED TO TAKE ADVANTAGE OF ANY OPENING IN THE CHILEAN MARKET, ACCORDING TO TASSARA.

5. COMMENT. OTHER SOURCES HAVE NOTED THE GROWING INTEREST OF NON-U.S. BANKS (GERMAN, JAPANESE, CITY OF LONDON) IN TAKING OVER THE LEADERSHIP ROLE PRESENTLY ENJOYED BY U.S. BANKS. AS TASSARA SUGGESTED, WE AWAIT THE U.S. BANK REACTION TO THE CORFO LOAN. AT THE VERY LEAST, A HESITATION ON THE PART OF U.S. BANKS WOULD RESULT IN A SMALLER U.S. SHARE OF CONTINUED CHILEAN BORROWING. MORE SERIOUSLY, A WITHDRAWAL

OF U.S. LEADERSHIP MIGHT CAUSE OTHER NON-U.S. BANKS TO AWAIT
THE POLITICAL OUTCOME OF THE LETELLER-MOFFITT CASE, THEREBY
CREATING PROBLEMS FOR THE GOC ECONOMIC GAME PLAN.
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